11 Globalisation and the theory of world systems

Young man, there is America – which at this day serves for little more than to amuse you with stories of savage men, and uncouth manners; yet shall, before you taste of death, show itself equal to the whole of that commerce which now attracts the envy of the world.

(Edmund Burke, *Speech on Conciliation with America*, 22 March 1775)

Globalisation

Political and economic interconnectedness in the world is nothing new, but in the twenty-first century it has reached new heights, reflecting the unprecedented technological advances in recent years. New developments in information technology and transport, allied to cheap and abundant sources of energy, have, for practical purposes, made the world a smaller place and forced societies at all levels to reassess their images of themselves and how they function (Harvey, 1989). The time–space compression, or the reduction in the barriers of physical distance by the introduction of ever faster means of communication and travel, has led to what Thrift (1995) has described as a hyperactive world, where the sheer volume and speed of transactions across the globe, and across space, has created a totally new political and economic landscape.

The revolution, which Edmund Burke foresaw over two centuries ago, is frequently, and often somewhat loosely, referred to as globalisation, though it is far from being a single, simple process. It is, rather, the convergence of a number of varied and quite disparate changes (Waters, 1995). These changes have necessitated a radical reappraisal of political geography and, in this context, there have been calls for a completely new approach to geopolitics, reasserting the crucial symbiosis between politics and economics, each of which is a necessary prerequisite for the

successful application of the other in international policy-making (Agnew and Corbridge, 1995).

At times, the concept of globalisation has led to somewhat extravagant claims being made about the scale and novelty of the revolution that is in train, not to mention its likely impact. While it is true that the role and power of the nation state have begun to change, predictions of its imminent demise in the face of a challenge from global, transnational corporations are decidedly premature and national forces clearly still remain extremely important and influential (Hirst and Thompson, 1996). At issue is a debate about the precise nature of the processes at work and the extent to which the world is becoming more internationalised, or more globalised (Dicken, 1998).

Internationalisation involves no more than the spread of economic activities across national boundaries and is, essentially, a quantitative process, leading to a more extensive global pattern of economic and commercial activity. Globalisation, on the other hand, is a more fundamental, qualitative change, producing novel patterns and processes of production and exchange and leading to a change in the whole structure of the economic landscape (Hodder, 1997). In reality, of course, such a rigid distinction is false in that both processes coexist, side by side, each to some extent a product of the other. The internationalisation of economic activity has encouraged novel solutions in both production and marketing, which have transcended national political boundaries and made globalisation a more distinct reality. Even so, the distinction between the two concepts is important, because both are highly uneven across time and space, with their absolute and relative distributions in a constant state of flux. Changes in one part of the world are rapidly diffused across the globe, underlining the interdependency of the whole economic system.

Nothing illustrates the scale and impact of the changes better than the progressive deregulation of global money markets since the end of the Second World War. Previously, world trade had been hidebound and very hampered by a multitude of national currency regulations, but following the UN-brokered Bretton Woods agreement in 1944, international currency convertibility gradually became the norm. First of all, as part of the US-led post-war economic reconstruction, the Organisation for European Economic Cooperation (OEEC) established fixed exchange rates for Western European currencies against the US dollar, thus allowing Western European countries to trade freely with North America,

and with each other (Blacksell, 1981). Later, the International Monetary Fund (IMF) was specifically charged with providing international support for weaker economies and currencies, underpinning the emergent, new financial order and extending the possibility of less restricted trade to other parts of the world.

The OEEC was extremely successful, but limited in its geographical scope and it was succeeded in 1961 by the Organisation for Economic Cooperation and Development (OECD), extending membership to most of the larger trading economies in the non-Communist world (Box 11.1). The success continued and, by the late 1960s, it was becoming clear that most of the major Western national economies had become strong enough economically to fend for themselves and that fixed exchange rates against the US dollar were an unnecessary anachronism. In addition, the scale of world trade and the relatively weak state of the US economy in the early 1970s meant that the USA was no longer in a position to allow the US dollar to be used as a universal reserve currency. Most currencies in the Western world were, therefore, allowed to float

Box 11.1

Organisation for Economic Cooperation and Development (OECD)

The OECD grew out of the Organisation for European Economic Cooperation (OEEC), which was formed to administer US and Canadian aid under the Marshall Plan for the reconstruction of Europe after the Second World War. Since it took over from the OEEC in 1961, the OECD's vocation has been to build strong economies in its member countries, improve efficiency, hone market systems, expand free trade, and contribute to development in industrial as well as developing countries.

The founding and early members of the OECD were all countries in Western Europe and North America: Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the UK, and the USA. Membership has subsequently spread much more widely across the trading nations of the world and now includes: Japan, Australia, New Zealand, Finland, Mexico, South Korea, as well as four former Communist states in Europe: the Czech Republic, Hungary, Poland, and the Slovak Republic.

freely against each other and to find their own relative values. The world financial system remained robust in the face of the change and, as a result, governments were encouraged to relax still further national controls on the free movement of currencies, to a point in the early 1980s where currency controls virtually disappeared entirely throughout the Western world.

The removal of restrictions on the movement of money transformed financial institutions. No longer necessarily under the dictatorship of national governments, they were free to locate and trade as they wished and a competitive global financial market rapidly began to take shape (Leyshon and Thrift, 1997). Money can now be moved around the world almost without any restriction, so long as the process does not infringe the criminal laws of the countries concerned. In a sense, a market has been encouraged to develop between states and other political jurisdictions, with financial institutions, such as banks and investment companies, competing to find the locations with the least punitive fiscal regimes. There is now a host of micro states, many of them former British and French island colonial territories, which have developed as important financial centres by acting as tax havens, where individuals and companies can avoid paying tax in the major industrial countries where most of them do business and are located (Figure 11.1). Tax havens are now to be found in every part of the world, so that most countries have an easily accessible place where money can be deposited to avoid paying tax. There is also a growing number of larger states that are seeking to emulate the notorious secrecy of Switzerland, which has acted as a no questions asked and no tax levied bolt hole for money from all parts of the world for more than a century. Not only does this secrecy mean that Swiss banks act as an impenetrable front for often ill-gotten gains, it also unfairly penalises citizens of some of the poorest countries in the world by depriving them of resources that are rightly theirs and compounding their poverty.

Transnational corporations (TNCs)

Transnational corporations with their operations based in a number of different countries across the world have been the business response to the greater financial freedom that the world economy now enjoys (Coe *et al*., 2004). They dominate world trade, with over 50 per cent of the total volume of trade of the USA and Japan being accounted for by

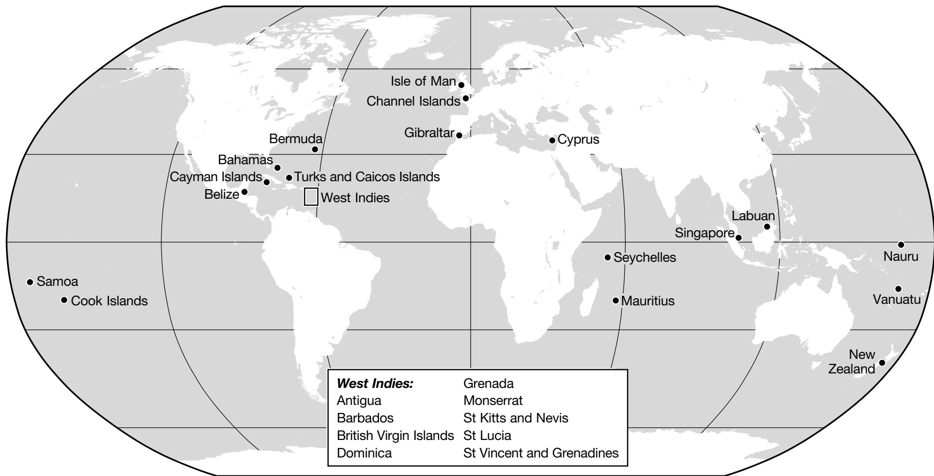

Figure 11.1 ***Tax havens across the world: small states where money can be deposited to avoid national taxation elsewhere***

the international movement of goods and services within their largest companies. Some idea of the size of TNCs, and their smaller cousins, the MNCs (multinational corporations, with operations in more than two different countries), is evident from the fact that the largest of them, corporations such as Ford, Exxon, Mitsubishi, and International Business Machines (IBM), have turnovers greater than those of countries like South Africa, Greece, or Portugal (Knox and Agnew, 1998). Their sheer size makes them formidable players on the global political stage in their own right. They are also overwhelmingly based in the traditional seats of economic power and wealth, with about 90 per cent of TNC core operations located in the USA, the EU, and Japan, though MNCs in a number of other countries, like South Korea, are beginning to challenge the supremacy of the traditional triad.

The somewhat contradictory national concentration of the economic power of TNCs within the traditional industrial heartlands gives some clue as to how they are structured. Although TNCs are certainly global, for a company such as IBM, which has production sites in 84 different countries worldwide, the profits from these operations flow very strongly back to the USA, where the original hub of its activities, and the bulk of its shareholders, are still located. The attraction to IBM of its far-flung empire is partly that it makes the corporation better placed to exploit new market opportunities, but also partly that it gives it more options for

reducing costs by capitalising on cheaper labour and less onerous environmental, health, and safety requirements. Such considerations can be very significant if companies and corporations at all levels have the opportunity to reduce costs in a fiercely competitive global market.

The Bhopal disaster

An extreme example of the dangers TNCs can pose for the states where they are located is the appalling disaster visited on Bhopal, a city with a population of over 1 million in north-central India, on 3 December 1984. The American chemical company, the Union Carbide Corporation, operated a pesticide plant in the city which leaked a highly toxic cloud of methyl isocyanate into the atmosphere, killing 2,000 people immediately and injuring at least 600,000, of whom more than 6,000 have subsequently died. The tragedy was made particularly devastating because the leak went undetected for at least an hour, and because neither the local population nor the local health officials had been given any training in how to respond to such a disaster and were, therefore, unable to apply the basic, and very straightforward, precautions that would have neutralised the worst toxic effects of the gas.

Union Carbide Corporation's main defence against charges of criminal negligence was that it was not actually directly responsible, as the plant was operated by a local Indian company, Union Carbide India Ltd, which had built the plant and was wholly in charge of health and safety. What the Union Carbide Corporation failed to mention was that it was the majority shareholder in the Indian company and, thus, in an unassailable position to ensure that proper operating standards were in place.

The Indian government successfully sued the corporation for $470 million in compensation, but the amounts paid to the victims were pitifully small: $1,300 for a death and $550 for those injured. What is more, corruption within the Indian government has meant that nearly half of the settlement has yet to be distributed. The plant was shut down immediately after the accident, but neither Union Carbide India Ltd, nor the Union Carbide Corporation, has managed to complete the clean-up operation and a cocktail of toxic chemicals is still leaking into the local environment, posing yet a further threat to the already beleaguered population of Bhopal.

Similar, though thankfully less disastrous, incidents have occurred across the world, most of them in developing countries. They are undoubtedly in large part an unsavoury consequence of the way in which many TNCs manage their global operations, even though it would be wrong to read into this that there have been no such incidents in the USA, the EU, or Japan. Such incidents have occurred there, but they have tended to be on a smaller scale and less serious. The one real exception to the general rule, however, is the former Soviet Union, which before its demise perpetrated massive environmental destruction in the name of industrial development, especially in the more remote of its constituent republics in Siberia (Saiko, 2001).

Oil exploration

Worldwide oil exploration represents the political dilemmas faced by those TNCs whose main business is to find and develop natural resources. On the one hand, few developed countries in the world have sufficient reserves to satisfy the needs of their major domestic oil companies, forcing them to seek opportunities abroad. On the other, these same companies have invaluable technical and business expertise to offer less developed countries to help them develop and realise the economic value of their oil and other natural resources. Nevertheless, most of the major oil corporations have come into serious conflict with governments at some time or other in their pursuit of new reserves, none more so in recent times than Royal Dutch Shell in Nigeria.

Shell produces nearly half of Nigeria's oil and in August 2004 was pumping out about 1 million barrels of oil a day in the country. It is the largest single contributor to Nigeria's exports and, as such, has to have a close working relationship with the central government. The dilemma is that that the central government's own legitimacy and hold on power is tenuous, as is often the case in the developing world, and this can throw an oil exploration company, like Shell, into conflict with dissident, irredentist groups, fighting to assert their autonomy. It was in the face of just such a threat that, in 1993, Shell had to suspend its operations in the Ogoni area of the Niger Delta, which is where most of its drilling operations are located. The company was accused by the local people of conniving with the central government to destroy their land and their way of life in its drive to exploit the rich oil and natural gas reserves. Shell's defence was that it was investing in the future of the local people by

bringing wealth and development to the region. The corporation was caught in the middle of what was a virtual civil war in the delta region and, although the immediate danger of war breaking out has now receded somewhat, the future of oil exploration is still hotly contested and Shell is still seen by many people locally as little better than the agent of a repressive central state.

An interesting consequence for geography of the position Shell has found itself in, stemmed from the fact that the company was and remains a major sponsor of the Royal Geographical Society in the UK. Many geographers at the time felt that the RGS should sever all links with the company in protest at its activities in the Ogoni region and the issue was the subject of a heated debate at the society's annual general meeting in 1994. In the event, the membership decided to continue accepting support from Shell, swayed by the argument that the social and economic benefits that the company brought to the region outweighed the tacit support that its presence in Nigeria gave to the repressive regime. The dilemma faced by both the company and the RGS provides a classic example of the difficulties caused by the fact that as economic systems become more globalised, political institutions often struggle in their wake.

Developmentalism and development

What is called 'the error of developmentalism' is a phrase first coined in 1974 by Immanuel Wallerstein in his monumental Marxist analysis of the evolution of the world economy (Wallerstein, 1974). It refutes the liberal notion that states develop through a series of discrete stages, from traditional to complex societies, which was articulated most tellingly by the American economist Walter Rostow (1971) and widely accepted in the Western world at the time as the orthodox interpretation of the development process. Wallerstein argues that the evidence for such an automatic progression in the development process simply does not exist. Rather the reality for most states in the developing world is that they are stuck in an unequal exploitative relationship with the states in the developed, industrialised world and that the relative economic positions are unlikely ever to change (Dos Santos, 1973).

Indeed, the whole concept of development, with its intrinsic promise of future wealth and prosperity, has been widely criticised as inherently fraudulent, preserving the essentials of European colonial exploitation in

a less obvious form, as overt colonialism fell out of political favour in the second half of the twentieth century (Escobar, 1995). Initiatives, such as the 1940 Colonial Development and Welfare Act in the UK and the 1946 Investment Fund for Economic and Social Development in France were as much agents for preserving the economic status quo as they were attempts to define a new political relationship between the UK and France and their hitherto dependent territories (Watts, 2000).

The persistence of the inequalities inherent in the relationship between the developed and the less developed worlds can still be seen in the difficulties encountered by the EU in developing an acceptable and equitable relationship with the former colonial territories of its member states. Since 1964, there have been a series of conventions signed between the EU and over fifty former dependent territories of its member states, mainly in Africa, the Caribbean, and the south Pacific, the most recent being the Fourth Lomé Convention, signed in 1989, which has subsequently been revised and updated.

All the conventions were, broadly, reciprocal agreements giving unrestricted access for exports from the former dependent territories to the EU, and also unrestricted access to markets in the former dependent territories to the EU. The agreements have proved very advantageous to the EU, because of the guaranteed access they gave to the EU to minerals and other raw materials in a large part of the developing world. It quickly became clear, however, that too little was being done to protect the price of exports from the former dependent territories and a series of STABEX agreements, now covering 50 different products, have since been agreed to stabilise the level of their export earnings and give their primary industries a more equitable return on what they produce. A separate agreement, SISMIN, has been agreed to cover the price of mineral exports. In spite of these agreements, there has still been a considerable amount of criticism of the EU for exploiting its relationship with the former dependent territories, though a good proportion probably stems from the jealousy of other industrial countries that are not part of the agreement (Blacksell, 1981).

In the eyes of many commentators, much of what has been represented as development is no more than a cynical ploy to preserve and perpetuate economic privilege. Haraway (1991) argues that the concept is largely constructed through keywords, what she terms 'toxic words', which actually mean something completely different from what is apparently

implied. Thus, 'planning' is a mechanism for normalising people and ensuring conformity; identifying 'resources' is an excuse for desecrating nature; 'poverty' is an invention for undermining the values of traditional societies; and the application of 'science' is too often a justification for violence against indigenous peoples and their land. There is undoubtedly a degree of dramatic licence in this caricature, but it does nevertheless reveal the oppressive nature of the political and economic relationship between states at the opposite ends of the spectrum of prosperity.

World-systems analysis

World-systems analysis is a model, devised by Immanuel Wallerstein and elaborated in a series of major books published in the 1970s and 1980s, which attempts to draw together all the diverse threads in the debate about the nature of development into a single explanatory model (Wallerstein, 1974, 1979, 1980, 1983, and 1984). The model has assumed a particular importance in political geography, because it provided the analytical framework for much of the seminal work by Peter Taylor, including *Political Geography: world-economy, nation-state and locality*, probably the most influential textbook on political geography to appear in recent years (Taylor and Flint, 1999).

The core of Wallerstein's argument is that there have only ever been three basic ways in which societies have been organised to sustain and perpetuate the key processes of production and reproduction. What he terms the *reciprocal-lineage mode* describes societies that are mainly differentiated on the basis of age and gender and in which exchange is purely reciprocal. It is a model of economically simple, pre-feudal, and pre-industrial societies, that were for the most part highly restricted in their geographical range. They struggle to survive at all in the modern world, only maintaining a tenuous hold in some of the desert regions of southern Africa, and the tropical rainforests of South America, Asia, and Africa.

The *redistributive-tributary mode* describes societies that are class-based, with production carried on by a large majority of agriculturalists and paying tribute to a small ruling class. It is the classic conception of pre-industrial feudalism and was dominant in large parts of the world in what in Europe is known as the early modern era. The princes and maharajas of India, the emperors in China and Japan, as well as the petty rulers throughout Europe, were all part of this widespread system.

The *capitalist mode* is also class-based, but crucially is distinguished by ceaseless capital accumulation. The logic of the market dominates economic thinking and prices and wages are determined through the mechanisms of supply and demand. It is the mode of production that has come to define the modern world economy and it has systematically swept away, or at the very least marginalised, the two earlier modes.

Wallerstein contends that these three basic modes of production have, in their turn, resulted in three distinct types of society: mini-systems, world empires, and world economies. There have been innumerable mini-systems that have come and gone in the course of human history, and vast numbers of the misleadingly named world empires, going back throughout recorded history. To be more precise, the world empires actually refer to semi-closed economic and political systems, dominated by class-based hierarchies, and inhabiting a more or less discrete world of their own. In contrast, there has only ever been one world system, the capitalist world economy, which first emerged in Europe about the middle of the fifteenth century and, over the ensuing 350 years, spread to dominate the whole world. It is still all-powerful today, despite undergoing radical internal restructuring.

The key message of this analysis is that there can be no meaningful study of social, economic, and political change that proceeds on a country-by-country basis. It must incorporate the single society that is the world system. In other words, globalisation has been a fact for nearly 500 years and the inequalities built into it are systemic, not transitory, though their precise distribution is in a constant state of flux.

The structure of the world system is dominated by a single world market, but it also has a multi-state political framework. Within this system, no one state is ever able to dominate completely and certainly not in perpetuity. The more bombastic the claims to be eternal, such as Adolf Hitler's boast that the German Third Reich would last for a thousand years, the more short-lived they have tended to be. There is a constant political competition between states and it is this which gives economic decision-makers the leeway to manoeuvre and to look for new opportunities to increase their capital accumulation.

The world system can roughly be divided into three. At one end of the spectrum are the developed, industrialised states, forming the core. At the other are the largely non-industrialised, less developed states that have little to offer, other than their labour and supplies of raw materials that can find a market in the industrialised world. It is they that constitute

the periphery. Between the two extremes is the semi-periphery, a highly politicised transition zone, where most of the movement occurs.

Political categorisation of the world in this way is replete with loose terminology, but the world system model has helped clarify some of the fundamental processes at work. For a generation, in the second half of the twentieth century, the term the Third World was used to designate those non-aligned states that resisted taking sides in the Cold War division of the world. It was also used as a piece of shorthand to describe the embattled territory between the two superpowers (Sachs, 1992). With the demise of the Soviet Union the term Third World has lost much of its meaning and the territory it represented is rapidly being reconstituted in a different way. A number of states, particularly in Asia, have seized on the opportunity to assert themselves economically and politically from within the world system's semi-periphery and to re-emerge as a new third world. Led by China, India and Indonesia, they are increasingly challenging the automatic dominance of the traditional developed countries in the core.

At the same time, what Manuel Castells (1997) has described as the Fourth World, has also begun to take shape. These are countries and regions that appear to be almost beyond the pale and appear to be in danger of falling outside the dynamic scope of the world system altogether. Many states in central Africa are now so poor and so ravaged by malaria, AIDS, and a host of other mortal diseases, that they offer little hope of trade and capital accumulation to the rest of the world, and are also too weak to generate any economic dynamism from their own resources (Kearns, 1996). The challenge for the globalised world is to find ways of preventing the hegemony of poverty and disease from creating a new, permanent, exclusion zone within the world system.

Key themes and further reading

The time–space compression has led to increasing integration and cross-fertilisation across the world, a process referred to as globalisation. All aspects of peoples lives have become more and more internationalised, a process that has been stimulated and encouraged by liberalised trade within the framework of international institutions like the OEEC, and its successor the OECD. Many firms now spread their operations across several national borders, and the largest (TNCs) appear to operate almost above the state system and outside its control. This enables them to

bypass environmental and other restrictive legislation, though sometimes with disastrous consequences for the local population. In other cases, the internationalisation and globalisation of economic activity is driven by the search for raw materials, such as oil, sufficient supplies of which to satisfy the needs of industrialised countries cannot be found from domestic sources. Developmentalism argues that less developed countries, which have little to offer other than their labour and raw materials, will steadily improve their relative economic position over time, but this counsel of hope is now widely rejected. World-systems analysis postulates that the global economy has progressed through three stages to the modern world with just one world system. Within that system there is three-fold division in terms of economic power, with relatively little movement between the different levels. Indeed, there are some who postulate a Fourth World of states that are trapped in perpetual poverty at the bottom of the pile.

There are a number of excellent surveys of the progress of globalisation written by geographers. Two of the best are: *Global Shift: the transformation of the world economy* by Peter Dicken (1998), which has deservedly run to several editions; and *Mastering Space: hegemony, territory and international political economy* by John Agnew and Stuart Corbridge (1995), which has been very influential in making geographers reassess their view of the economic and political structure of the world economy at the turn of the twenty-first century. Another excellent survey of the world economy and the way it is evolving is *The Geography of the World Economy* by Paul Knox and John Agnew (1998). The most accessible introduction to world systems analysis is still *Political Geography: world-economy, nation-state and locality* by Peter Taylor and Colin Flint (1999).